

Message Text

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FM SECSTATE WASHDC

TO AMEMBASSY PARIS

AMEMBASSY BONN

AMEMBASSY LONDON

AMEMBASSY BRUSSELS

INFO AMEMBASSY KINSHASA

C O N F I D E N T I A L STATE 301760

E.O. 11652:GDS

TAGS: EFIN, CG, ETEL, FR

SUBJECT: FRENCH GROUND STATION COMMUNICATIONS SYSTEM
CONTRACT WITH ZAIRE

REF: KINSHASA 9878,9420, 10117, 10155

FOR PARIS

1. AS ADDRESSEES ARE AWARE, PARIS CLUB CREDITORS DID NOT
AGREE TO DISCUSS DEBT RESCHEDULING FOR ZAIRE UNTIL GOZ
SUCCESSFULLY CONCLUDED ITS NEGOTIATIONS WITH THE IMF FOR
A FIRST CREDIT TRANCHE STANDBY. MORE RECENTLY, PRIVATE
BANKS CONCLUDED A REFINANCING AGREEMENT FOR ZAIRE'S
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EXTERNAL PRIVATE BANK DEBT ON CONDITION THAT THE GOZ

CONCLUDES AN AGREEMENT WITH THE IMF ON A STABILIZATION PROGRAM ASSOCIATED WITH A HIGHER TRANCHE DRAWING. BOTH ARRANGEMENTS EMPHASIZE THE IMPORTANCE CREDITORS ATTACH TO GOZ COMMITMENTS TO IMPROVED ECONOMIC PERFORMANCE. IN FACT, PAST RESCHEDULINGS WITH OTHER COUNTRIES HAVE DEMONSTRATED THAT THE KEY TO EFFECTIVENESS OF A DEBT RESCHEDULING EXERCISE HAS GENERALLY BEEN THE DEBTOR COUNTRY'S IMPLEMENTATION OF ITS ECONOMIC POLICY COMMITMENTS.

2. ALTHOUGH THE GOZ HAS MADE SOME PROGRESS IN DEALING WITH ITS ECONOMIC PROBLEMS, A LONG AND DIFFICULT PERIOD REMAINS. EMBASSY KINSHASA'S ANALYSIS OF THE SITUATION (KINSHASA 9878) CLEARLY POINTS OUT DIFFICULTIES REMAINING AND THE ABSOLUTELY CRUCIAL IMPORTANCE OF ZAIRE'S OWN PERFORMANCE IN ECONOMIC MANAGEMENT FIELD. EMBASSY KINSHASA EMPHASIZES DANGEROUS TENDENCY OF SOME OF ZAIRE'S FRIENDS AND OF GOZ ITSELF TO PURSUE "BUSINESS AS USUAL" AND TO RELAX MANAGEMENT DISCIPLINE.

3. EMBASSY KINSHASA HAS ALSO REPORTED THAT THERE ARE EFFORTS WITHIN GOZ TO OPPOSE LONDON PRIVATE BANK AGREEMENT AND IMF STABILIZATION PROGRAM (KINSHASA 10156). PRESIDENTIAL ADVISOR BISENGIMANA MAY BE AFFILIATED WITH THIS MOVEMENT AND MAY ATTEMPT TO INFLUENCE FRENCH AND BELGIAN BANKS.

4. IT IS IN THIS CONTEXT THAT USG IS CONCERNED ABOUT IMPLICATIONS OF RECENTLY SIGNED CONTRACT BETWEEN GOZ AND FRENCH FIRM FOR A GROUND STATION COMMUNICATIONS SYSTEM AT A REPORTED COST OF \$85 MILLION. PROJECT ITSELF IS OF DOUBTFUL PRIORITY, PLACES ADDITIONAL STRAINS ON GOZ'S BALANCE OF PAYMENTS SITUATION, AND VIOLATES GOZ COMMITMENT TO IMF IN FIRST STANDBY AGREEMENT, I.E., "THAT ZAIRE INTENDS TO ABSTAIN FROM CONTRACTING OR GUARANTEEING NEW LOANS ABROAD WITH A MATURITY RANGE OF BETWEEN ONE AND TEN YEARS, OTHER THAN FOR CONTINUATION OF PRIORITY PROJECTS ALREADY UNDER WAY..."

5. MORE IMPORTANT ARE IMPLICATIONS FOR THE FUTURE. ALL INDICATIONS WE HAVE ARE THAT ZAIRE WILL CONFRONT SERIOUS

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BALANCE OF PAYMENTS PROBLEMS FOR AT LEAST THE NEXT FEW YEARS. IT WILL TAKE A SUSTAINED PERFORMANCE BY ZAIRE TO OVERCOME THESE PROBLEMS. WHILE ZAIRE'S FRIENDS CAN PROVIDE VALUABLE ASSISTANCE TO COMPLEMENT ZAIRE'S OWN EFFORTS, THE EFFECTIVENESS OF THIS ASSISTANCE - SUCH AS PROVIDED BY THE PARIS CLUB RESCHEDULING - WILL BE DIMINISHED GREATLY UNLESS ZAIRE ITSELF MAINTAINS ITS COMMITMENTS TO IMPROVED PERFORMANCE. WE ATTACH CONSIDERABLE IMPORTANCE TO ZAIRE'S

COMMITMENT TO AVOID NON-PRIORITY BORROWING, PARTICULARLY SINCE EXCESSIVE ACCUMULATION OF SUCH DEBT WAS A MAJOR FACTOR IN CAUSING ZAIRE'S CURRENT ECONOMIC DIFFICULTIES. WE ARE THUS SERIOUSLY CONCERNED WITH THE IMPLICATIONS OF THE FRENCH CONTRACT.

6. FOR EMBASSY PARIS: REQUEST THAT YOU RAISE THESE ISSUES WITH PARIS CLUB CHAIRMAN PERBEREAU, MAKING FOLLOWING POINTS

-- SOLICIT FROM PERBEREAU GOF VIEWS ON LONDON PRIVATE BANK AGREEMENT AND PROPOSED NEW IMF STANDBY AGREEMENT FOR IMPLEMENTATION OF HIGHER TRANCHE STABILIZATION PROGRAM WITH ATTENDANT PERFORMANCE CRITERIA. IF HE INDICATES THAT GOF FAVORS THESE ACCORDS, AS WE ASSUME IS THE CASE, ASK WHETHER THE GOF BELIEVES IT MIGHT BE USEFUL TO SO ADVISE THE GOZ.

-- EMPHASIZE THAT USG IS CONCERNED ABOUT ZAIRE'S ECONOMIC RECOVERY AND PLACES GREAT DEAL OF HOPE IN BROAD RANGE OF EFFORTS BEING UNDERTAKEN BY THE INTERNATIONAL COMMUNITY- INCLUDING THE PARIS CLUB - TO ASSIST ZAIRE IN ITS CURRENT DIFFICULTIES.

-- IT IS IN THIS CONTEXT THAT WE ARE CONCERNED ABOUT RECENTLY ANNOUNCED CONTRACT BETWEEN GOZ AND FRENCH FIRM FOR A MAJOR NEW PROJECT IN TELECOMMUNICATIONS. (FOR DETAILS SEE KINSHASA 9420 AND 10117 AND 10155) STATE OUR BELIEF THAT CONTRACT IS INCONSISTENT WITH THE SPIRIT OF THE GOZ'S COMMITMENT TO THE IMF AND UNDERMINES THE CONSIDERABLE EFFORTS - SUCH AS THE PARIS CLUB - THAT THE FRIENDS OF ZAIRE ARE MAKING TO RESTORE GOZ SOLVENCY.

-- FRENCH AMBASSADOR IN KINSHASA AS WELL AS ZAIRIAN PRESS
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HAVE EMPHASIZED THAT CONTRACT WAS AGREED BETWEEN MOBUTU AND GISCARD IN AUGUST 1975, AND THUS PREDATES GOZ COMMITMENT TO IMF. WHILE THIS MAY BE TECHNICALLY CORRECT, IT IS CLEAR THAT THE RECENT GOF-GOZ DECISION TO MOVE AHEAD ON CONTRACT VIOLATES THE ALREADY ACCEPTED PRINCIPLE THAT NON-PRIORITY BORROWING IS INCOMPATIBLE WITH ZAIRIAN ECONOMIC RECOVERY. IT ALSO APPEARS THE CONTRACT WILL HAVE SIGNIFICANT IMPLICATIONS FOR ZAIRE'S FUTURE DEBT SERVICE, AND IS THUS INCONSISTENT WITH THE SPIRIT OF THE RECENT PARIS CLUB EXERCISE, I.E., TO HELP ZAIRE OVERCOME ITS EXCEPTIONAL DEBT SERVICING DIFFICULTIES.

-- EXPLAIN OUR VIEWS ON THE IMPORTANCE OF THE GOZ AVOIDING NON-PRIORITY PROJECTS, TO THE POINT THAT WE DISCOURAGED A POTENTIAL AMERICAN SUPPLIER (ITT) FROM PURSUING THE SAME

CONTRACT. URGE THE GOF AT A MINIMUM TO DELAY IMPLEMENTATION OF THE CONTRACT UNTIL SUCH TIME AS ZAIRE HAS MANAGED TO OVERCOME ITS STAGGERING FINANCIAL DIFFICULTIES.

7. YOU MAY ALSO WISH TO TAKE ADVANTAGE OF YOUR MEETING WITH PERBEREAU TO INFORM HIM THAT THE USG HAS NOT YET SUBMITTED ITS BILATERAL AGREEMENT TO THE GOZ (REF PARIS 34388 AND 34878). WE HOPE TO DO SO DURING THE FIRST HALF OF DECEMBER. THE ISSUE OF THE INTEREST RATE IS STILL UNDER DISCUSSION AMONG INTERESTED USG AGENCIES. USG BILATERAL AGREEMENT WILL DEAL ONLY WITH 1975 ARREARAGES AND 1976 OBLIGATIONS. 1977 AND BEYOND WILL BE SUBJECT OF NEXT PARIS CLUB MEETING.

8. FOR LONDON, BRUSSELS AND BONN: YOU SHOULD ADVISE APPROPRIATE HOST GOVERNMENT OFFICIALS OF USG VIEWS SET OUT ABOVE, AND ADVISE THEM THAT IN THE CASE OF THE ZAIRIAN-FRENCH TELECOMMUNICATIONS CONTRACT WE ARE REGISTERING OUR SERIOUS CONCERN WITH CHAIRMAN OF THE PARIS CLUB. ROBINSON

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